

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02 SCI-06

FEA-02 INT-08 IO-14 NEA-11 DRC-01 AGR-20 STR-08 /237 W

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P R 211650Z JAN 74

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC PROIRITY 9658

INFO AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 BRUSSELS 0355

STATE FOR T/IEP

E.O.11652: GDS

TAGS: ENRG, BE

SUBJECT: ENERGY: T/IEP: BACKGROUND MATERIAL FOR INTERNATIONAL
ENERGY CONFERENCE

REF: A. BRUSSELS 0345 B. STATE 7324

1. MAJOR CURRENT SOURCE OF MOST RECENT INFORMATION ON IMPACT ON
BELGIAN ECONOMY OF ENERGY CRISIS IS INTENAL GOB DOCUMENT
COMPLETED WITHIN PAST WEEK BY GOVERNMENT PLANNING BUREAU. BUREAU
USED ITS OWN ECONOMETRIC MODEL AND EXTERNAL ECONOMIC DATA
OBTAINED FROM OECD AND EUROPEAN COMMISSION (EC). OTHER MAJOR
ECONOMIC ANALYSIS INSTITUTIONS IN BELGIUM ARE CONSEIL CENTRAL
DE L'ECONOMIC (GOVERNMENTECONOMIC ANALYSIS AND ADVISORY BODY)
AND DEPARTMENT OF APPLIED ECONOMICS AT FREE UNIVERSITY OF
BRUSSELS. FORMER HAS OBIOUSLY CLOSE LINKS WITH PLANNING
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BUREAU AND ITS VIEWS (IN RECENTLY PUBLISHED DOCUMENTS AND IN

PRIVATE CONVERSATIONS WITH EMBOFFS) COINCIDE WITH PLANNING BUREAU. THE SAME IS TRUE OF STUDIES OF BRUSSELS UNIVERSITY WHICH OPERATES ITS OWN COMPUTER AND ECONOMIC MODEL. UNIVERSITY'S ASSESSMENT DISPLAYS NOSIGNIFICANT VARIATION FROM PLANNING BUREAU ESTIMATES. OTHER LOCAL INSTITUTIONS (BANKS, OTHER UNIVERSITIES, BELGIAN FEDERATION OF INDUSTRIEE, INDIVIDUAL COMMENTATORS) ARE OBVIOUSLY USING DATA PROVIDED BY ABOVE THREE SOURCES AND THEIR PUBLIC AND PRIVATE COMMENTS ARE SIMILAR IN SCOPE AND INTERPRETATION.

2. ALL MAJOR ELEMENTS OF BELGIAN ECONOMIC AND POLITICAL COMMUNITY HAVE LONG BEEN IN ESSENTIAL AGREEMENT ON PRIMARY CHARACTERISTICS OF BELGIAN ECONOMY. BELGIUM IS AN INDUSTRIALIZED PROCESSING AND SERVICE ECONOMY HIGHLY INTEGRATED INTO A REGIONAL AND INTERNATIONAL SYSTEM. FOREIGN TRADE CONTRIBUTES 50 PERCENT OF GNP AND BOTH THE IMPORTANCE OF THIS STATISTIC AND ITS IMPLICATIONS FOR BELGIAN INDEPENDENCE ARE FULLY APPRECIATED.

3. BASIC ASSUMPTION FOR 1974/75 IS THAT SHOWDOWN IN ECONOMY EXPECTED IN LATTER HALF 1974 WILL EXTEND INTO 1975 WHICH WILL IN FACT BE MORE DIFFICULT FOR BELGIAN ECONOMY. REINFORCING THIS TREND ARE (A) AFTER AFFECTS (NEGLIGIBLE IN AGGREGATE TERMS BUT WORRISOME IN SOME SECTORS) OF PETROLEUM SUPPLY SHORTAGES IN JANUARY AND FEBRUARY AND (B) SIGNIFICANT RISE IN PRICE OF PETROLEUM PRODUCTS OF BETWEEN ONE AND ONE AND HALF FB PER LITER (WITHOUT ADJUSTING FOR FEEDBACK PRESSURES RESULTING FROM PETROLEUM PRODUCT PRICE RISE OR POSSIBLE CORRECTIVE

POLICIES INTRODUCED BY GOVERNMENT).

4. MAJORQUANTIFIABLE EFFECTS EXPECTED ARE:

	1973	1974
	----	----
GNP (PERCENTAGE RISE		
IN VOLUME)	6.25 PERCENT	2.5 - 3 PERCENT
COST OF LIVING RISE	PLUS 7 PERCENT	PLUS 10 PERCENT
B/P	PLUS FB 45 BILLION	PLUS 0 TO 15 BILLIO
N		
NUMBERS OF UNEMPLOYED		
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(END DECEMBER)	FULL	91,000	100,000 - 110,000
	PARTIAL	30,000	45,000 - 50,000

5. BALANCE OF PAYMENTS: FIRST OECD ESTIMATE FOR COST TO BELGIUM IN 1974 OF NEW PETROLEUM PRICES WAS \$1,650 MILLION (FB 65 BILLION), LATER ADJUSTED TO \$1,500 MILLION. GOB EXPOERTS BELIEVE THESE FIGURES LACK NECESSARY ADJUSTMENTS FOR OVERALL AFFECTS ON TRADE (PARTICULARLY MEANINGFUL FOR BELGIUM WHERE FOREIGN TRADE CONSTITUTES

50 PERCENT OF GNP) INCLUDING AFFECT OF PETROLEUM PRICE RISE ON CONSUMPTION PLUS ABILITY TO PASS ON INCREASED COSTS IN EXPORTS (INCLUDING POL). EUROPEAN COMMUNITY (EC) ESTIMATES NEW PETROLEUM PRICE IMPACT ON BELGIUM WILL BE IN NEIGHBORHOOD OF \$750 MILLION (FB PLUS 30 BILLION) WITH WHICH GOB EXPRTS TEND TO AGREE. HENCE ESTIMATE ABOVE OF 1974 B/F BALANCE OF PLUS 0 TO FB 15 BILLION.

6. GNP ESTIMATES: 2.5 - 3 PERCENT ESTIMATE FOR 1974 BASED UPON ASSUMPTION THAT PETROLEUM SUPPLIES TO BELGIUM WILL BY END FEBRUARY RETURN TO "NORMAL." HOWEVER MINECONAFFAIRS HAS ALSO CONDUCTED COMPUTER RUNS WITH PLANNING BUREAU'S ECONOMETRIC MODEL OF BELGIAN ECONOMY ADJUSTED FOR DIFFEREING ESTIMATES OF PETROLEUM SUPPLY WITH FOLLOWING RESULTS:

PETROLEUM SHORTFALL	1974 GMP GROWTH (REAL)
10 PERCENT	2 PERCENT
15 PERCENT	UNDER 2 PERCENT
30 PERCENT	MINUS 0.5 PERCENT

THESE ESTIMATES COMPARE WITH PRE-CRISIS ESTIMATES (BY GOVERNMENT AND PRIVATE SOURCES) OF BETWEEN 4 AND 5 PERCENT AND 1973 PERFORMANCE OF 6.25 PERCENT REAL.

7. COST OF LIVING: HIGH 10 PERCENT ESTIMATE JUSTIFIED ON GROUNDS THAT EC ESTIMATE FOR WHOLE EEC IS 10 - 12 PERCENT AND THAT TOTAL EFFECT ON PRICE (DIRECT AND INDIRECT) OF PETROLEUM PRICE RISE WILL BE 2.5 PERCENT. LATTER ESTIMATE BASED ON 1965 PETROLEU CONTRIBUTION TO FINAL COSTS TABLE WHICH IN FACT UNDERESTIMATES SITUATION AS PETROLEUM USE HAS RISEN CONSIDERABLY SINCE THEN.

8. UNEMPLOYMENT: GIVEN VARIOUS ASSUMPTIONS MENTIONED ABOVE,
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ECONOMETRIC MODEL INDICATES UNEMPLOYMENT RISE WILL BE LIMITED TO PLUS 10,000. HOWEVER GOVERNMENT ANALYSTS BELIEVE THIS ESTIMATE OVER OPTIMISTIC AS IT IGNORES (A) EXPECTED SECTORAL LAGS AND (B) AFFECT ON "PARTIAL"UNEMPLOYMENT, I.E., LAYOFF OF PART-TIME WORKERS AND REDUCTION OF FULL-TIME WORKERS TO PART-TIME. THERE ARE ALSO INDICATIONS THAT EMPLOYERS ARE GRANTING EXTENSIVE EXTRA VACATION TIME. ONE INTERESTING (TO ANY BELGIAN GOVERNMENT) POINT IS INDICATION THAT UNEMPLOYMENT EFFECTS OF EXPECTED GNP GROWTH SLOWDOWN WILL NOT VARY GREATLY BETWEEN THE COUNTRY'S VARIOUS REGIONS, ALTHOUGH THERE WILL BE SLIGHT TENDENCY FOR FLANDERS TO SUFFER MORE THAN WALLONIA.

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ACTION EB-11

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P R 211650Z JAN 74

FM AMEMBASSY BRUSSELS

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INFO AMEMBASSY THE HAGUE

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STATE FOR T/IEP

9. SECTORAL CONSIDERATIONS: (A) INDUSTRIES MOST AFFECTED BY
 HIGHER PARTICULARLY PETROLEUM COSTS ARE: (PERCENTAGES SHOW
 ENERGY COMPONENT OF FINAL OUTPUT IN PRICE TERMS. SOURCE:
 BELGIAN NATIONAL STATISTICS INSTITUTE)

SECTOR	ALL ENERGY	PETROLEUM	BASED ENERGY
IRON AND STEEL	17.7 PERCENT	1.05 PERCENT	
CHEMICALS	6.19 PERCENT	1.40	
BRICK & BAKED CLAY PRODUCTION	15.45	7.85	
AGRICULTURE & HORTICULTURE	N/A	N/A	
TEXTILES (FINISHED)	6.11	3.35	
PAPER/CARDBOARD PRODUCTION	7.31	2.75	
CERAMICS	7.15	3.41	
GLASS	6.83	3.28	
CEMENT	N/A	N/A	

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(B) FOOD PROCESSING, METAL FABRICATION AND CONSTRUCTION ARE SECTORS WITH LARGE LABOR FORCES AND ARE MAJOR USERS OF PETROLEUM PRODUCTS (RESPECTIVELY 6,000, 5,000, AND 580,000 TONS) BUT ENERGY COMPONENT OF OUTPUT PRICE REMAINS UNDER 2 PERCENT FOR ALL THREE.

(C) MOST IMMEDIATELY AFFECTED SECTOR IS CHEMICALS, AS IT USES PETROLEUM PRODUCTS BOTH AS ENERGY SOURCE AND RAW MATERIAL. NAPHTHA: PRICE UNDER STONG PRESSURE, NOW UP TO \$110 PER TON, FROM \$70 IN LATE '73 AS COMPARED WITH \$34 IN JULY 1973. PRICE RISE OBVIOUSLY BEING REFLECTED IN PRICE OF ETHYLENE, PRIMARY END-PRODUCT OF NAPHTHA. PVC: REQUIRES BOTH ETHYLENE AND CHOLORINE (WHICH WAS IN SHORT SUPPLY BEFORE PETROLEUM CRISIS, WHOSE PRICE COMPONENT DERIVED FROM ENERGY IS 50 PERCENT AND WHOSE PRICE HAS RECENTLY INCREASED BY 25 PERCENT). STYRENE-POLYSTYRENE: PRICE HAS ALREADY DOUBLED SINCE APRIL 1973.

(D) ABOVE INCREASES IN PETROLEUM PRODUCT PRICES HAVING SERIOS EFFECT ON PLASTICS INDUSTRY (15,000 EMPLOYEES - 500 COMPANIES) AS THE AGGREGATE RISE IN RAW MATERIALS FOR THIS SECTOR HAS ALREADY BEEN BETWEEN 30 AND 70 PERCENT DEPENDING UPON SUB-SECTOR. RISE IN PLASTIC PRICES ALSO SIGNIFICANT FOR OTHER INDUSTRIES WHERE PLASTICS IN TURN ARE MAJOR RAW MATERIAL (PERCENTAGE OF PLASTIC RAW MATERIAL COST IN OUTPUT IN PARENTHESIS). PACKING (25 PERCENT). CONSTRUCTION (15 PERCENT), HOUSEHOLD APPLIANCES (15 PERCENT).

(E) GOB ANALYSTS POINT OUT, HOWEVER, THAT CERTAIN SECTORS WILL PROFIT FROM ADJUSTMENTS MADE NECESSARY BY PETROLEUM PRICE INCREASES: R & D FOR NEW ENERGY SOURCES, SECTORS AND INDUSTRIES WHICH EFFECTIVELY ECONOMIZE ON PETROLEUM USAGE, PROUDCERS OF PRODUCTS COMPETITIVE WITH THOSE DERIVED FROM PETROLEUM (E.G., GLASS, PAPER, CARDBOARD), SECTORS BENEFITING FROM CHANGES IN "LIFE STYLE" RESULTING FROM EXPENSIVE ENERGY.

10. PUBLIC FINANCES:

(A) GOB BUDGET FIGURES FOR 1973/74 (BILLIONS FB):

RECEIPTS	1973 (ADJUSTED)	1974
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FISCAL	411.6	473.6
EARMARKED RECEIPTS	27.0	29.9
TOTAL	438.6	503.5
EXPENDITURES		

RECURRENT	422.9	473.4
CAPITAL	131.1	146.3
TOTAL	554.0	619.7

(B) 1974 BUDGET BASED ON ASSUMPTION THAT GNP (CURRENT PRICE) WOULD INCREASE BY 11.5 PERCENT. NEW MORE PESSIMISTIC ESTIMATE FOR GROWTH IN VOLUME (REAL TERMS) OF GNP IN 1974 SHOULD NOT CAUSE BUDGETARY RECEIPT SHORTFALL AS PRICE RISE WILL BE GREATER THAN EXPECTED. THEREFORE TAX RECEIPT SHORTFALL STEMMING FROM (RELATIVE) DECLINE IN ECONOMIC ACTIVITY (E.G., DECLINE IN AUTOMOBILE SALES) WILL BE MADE UP BY INCREASE IN TAX REVENUES STEMMING FROM HIGHER PRICE OF ITEMS AND SERVICES SOLD (PARTICULARLY FROM VALUE ADDED TAX LEVIES).

(C) EXPENDITURE SIDE OF BUDGET DOES POSE PROBLEMS. INCREASE IN UNEMPLOYED OF BETWEEN 10,000 - 20,000 REPRESENTS EXTRA BUDGETARY COSTS OF BETWEEN ONE AND TWO BILLION FB. EACH POINT INCREASE IN GENERAL PRICE INDEX RESULTS IN ADDITIONAL EXPENSES OF PLUS 4.5 BILLION FB. THESE INCREASES WILL BE SOMEWHAT BALANCED BY CERTAIN EXPENDITURE DECREASES (E.&., SUBSIDIES TO COAL INDUSTRY) BUT GOB EXPERTS EXPECT THAT LONG TERM EFFECT ON BUDGET OF ENERGY SITUATION UNDER DISCUSSION WILL BE EXPANSIONARY POSING POTENTIALLY SERIOUS BUDGETARY PROBLEMS IN 1975 AND AFTER.

11. ECONOMIC POLICY PROBLEMS FACING GOB IN 1974 AND 1975:
INTERNAL GOB ECONOMIC SITUATION REPORT REFERRED TO ABOVE LISTS
NUMBER OF SPECIFIC ECONOMIC POLICY DECISIONS FACING GOVERNMENT.
WHICH CONCERN FINAL TWO YEARS OF GOB'S
1971-75 ECONOMIC PLAN AND IMPLICATIONS OF INTERNATIONAL
EVENTS OF PAST MONTHS. DECISIONS IN REGARD TO FORMER CALL FOR
SPECIFIC ACTIONS. PARTICULARLY IN REGARD TO EMPLOYMENT,
PRICES, AND PUBLIC INVESTMENT. LATTER REQUIRES CONCENTRATION
ON APPARENT CONTRADICTORY OBJECTIVES OF SUSTAINING EMPLOYMENT
LEVELS WHILE FIGHTING INFLATION. ELEMENTS OF ECONOMIC POLICY
REQUIRING IMMEDIATE CONSIDERATION ACCORDING TO THIS REPORT:
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(A) EMPLOYMENT:--ACTIONS CONCERNING ENERGY ALLOCATION
SUBSTITUTABILITY INTENDED TO PROTECT EMPLOYMENT.
--INSTRUCTIONS TO REGIONAL EMPLOYMENT COMMITTEES TO
IDENTIFY SPECIFIC PROBLEMS AND SOLUTIONS IN EACH REGION.
--PRIVATE SECTOR AGREEMENT (TACIT OR FORMAL) TO CONVENTIONA
LIMITING LARGE SCALE LAYOFFS, GIVING PREFERENCE TO REDUCTION
OR WORKING HOURS, LIMITATION ON OVERTIME FOR SOME EMPLOYEES,
INCREASED VACATION TIME, ETC.
--SPECIAL ARRANGEMENTS (PRESUMABLY FINANCIAL) FOR
COMPANIES IN DIFFICULTY.

(B) PUBLIC FINANCES

--DEFICIT IN CURRENT BUDGET (HITHERTO ANATHEMA IN BELGIAN PUBLIC FINANCE) AND IF SO, WHERE TO FIND NEEDED FUNDS WITHOUT RESORTING TO TRADITIONAL BELGIAN TECHNIQUE OF FINANCING "EXTRA" GOVERNMENT EXPENSES BY PADDING CAPITAL BUDGET.

--ABSORPTION OF EXCESS PURCHASING CAPACITY BY ISSUING SPECIAL GOVERNMENT LOAN RECEIPTS OF WHICH WOULD BE STERILIZED.

(C) PUBLIC INVESTMENT: SHOULD THE EXISTING QUARTERLY LIMITS ON PUBLIC INVESTMENT EXPENDITURE BE MODIFIED WITH AN EYE TOWARDS FOLLOWING CRITERIA: DIRECT AND INDIRECT EFFECTS ON EMPLOYMENT, RATION BETWEEN HOURS OF WORK AND AMOUNT OF PETROLEUM CONSUMED, PRESSURE ON PRICES, COORDINATION WITH OTHER OBJECTIVES SOUGHT BY GOVERNMENT IN THIS SITUATION, AND TIME LAG IN IMPLEMENTATION OF GOVERNMENT FINANCED PROJECTS?

(D) CREDIT:

--GIVEN THE DEFLATIONARY EFFECT OF THE REDUCTION IN B/P SURPLUS, SHOULD A SELECTIVE LOOSENING OF PRIVATE SECTOR CREDIT (INDUSTRIAL AND PRIVATE CONSUMPTION) BE IMPLEMENTED?

--NEED TO REVIEW CURRENT ECONOMIC EXPANSION LAW IN RESPECT TO SECTORS IN TEMPORARY DIFFICULTIES (RESULTING FROM PETROLEUM SITUATION), IN FUNDAMENTAL DIFFICULTIES (WHERE RECONVERSION HAD BEEN CALLED FOR (E.G., COAL), AND IN NEW ACTIVITIES (RECYCLING OF MATERIALS).

(E) PRICE POLICY: FULL AGREEMENT WITH RECENT EEC REPORTS AND DISCUSSIONS ON PRICE POLICY.

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12. INFORMATION RELEVANT TO REFTEL HAS ALSO BEEN EARLIER SUBMITTED IN THE FOLLOWING EMBASSY REPORTS:

A. BRUSSELS TEL 0082, JANUARY 7, 1974.

B. BRUSSELS A15, JANUARY 14, 1974

C. BRUSSELS A14, JANUARY 14, 1974

D. BRUSSELS A-8, JANUARY 9, 1974

E. BRUSSELS A-318 DECEMBER 12, 1973.

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